



AHED MUSIC CORPORATION LIMITED
ANNUAL REPORT 1970

AR05



AHED MUSIC CORPORATION LIMITED



FINANCIAL HIGHLIGHTS FOR FISCAL YEARS

	1970	1969	1968	1967	1966
Net Sales	\$3,917,297	\$3,658,168	\$3,066,812	\$2,627,841	\$1,767,988
Net Profit	101,461	90,095	76,124	58,030	48,383
Earnings Per Share (Based On Current Outstanding)	.127	.112	.095	.072	.061
Total Assets	2,500,083	2,069,348	1,316,760	1,272,059	1,606,362
Shareholders' Equity	1,235,357	1,133,896	465,503	378,294	302,671

SUBSIDIARIES

ARC SOUND LTD.
ARC RECORDS LTD.
PRECISION RECORD PRODUCTIONS LTD.
BAY MUSIC COMPANY LIMITED
CANINT MUSIC CORPORATION LIMITED
DRUM VILLAGE LIMITED
AHED NATIONAL FRANCHISES LIMITED

PRESIDENT'S REPORT TO THE SHAREHOLDERS

I am again most pleased to be able to report favorable and solid progress has been made by AHED Music Corporation Limited and its subsidiaries during our second fiscal year. As you are aware, in our first fiscal year as a public company, we changed our name as above from Arc Home Entertainment Diversified Limited.

While 1970 was another recessed economic year in North America, in comparison with most public companies, large and small, we fared very well. Total profits of AHED increased 13% over the previous year. Net profit was \$101,461 or 12.7 cents per share for the year ended November 30th, compared with \$90,095 or 11.2 cents per share a year earlier. Sales increased to \$3,917,297 from \$3,658,168.

While the increase in net profit does not come up to the 25-30% increase we expect to realize each year, if economic conditions had been more normal we are confident our profit growth would have exceeded expectations.

As a result of the recessed economic conditions in 1970, this year has again primarily been a year of consolidation and reinforcing our internal organization in preparation for the improved economic conditions predicted for 1971-72. This project has now been accomplished, preparing the company for immediate expansion, as follows:

First, in the Musical Instrument Division, in order to utilize our working capital most effectively, we decided to concentrate our activities in the area of musical instrument distribution, selling through independent retailers. The result was a 30% increase in sales and net profits at a time when retail and wholesale sales were generally on the decline.

Second, in the area of record and tape distribution, in 1970 the industry was recessed generally. As a result,

price discounting at the retail level has continued to grow, and while sales increased, profits decreased. Fortunately, this trend appears to be over the peak and we anticipate returning to profitable operation within the current year. Sales of cartridges and cassette tapes have also not come up to expectation. It now appears it will be several years before cartridge tape becomes a significant expansion factor within the recording industry.

On the other hand, we are very pleased with development within the master record production, music publishing and artist management division. The establishment of the recording group OCEAN, through their recording "PUT YOUR HAND IN THE HAND", as an international hit act will lead, we expect, to the establishment of many more of our recording artists to international, commercial and profitable acceptance.

In another area of explosive earning potential, artist management, two performers with whom we have been working for some time, Terry Black and Laurel Ward, were signed to a record production contract by AIR London Ltd., the new production company in England that includes George Martin (producer of the Beatles) and Peter Sullivan (producer of Tom Jones). Terry & Laurel were chosen as one of the first artists to be included in AIR's new record production firm. Their record releases will receive immediate international exposure, with AHED retaining management of these artists.

Further, one of Canada's leading pop-country singers featured in the Tommy Hunter Show, Debbie-Lori Kaye, has signed with us for management. We made a presentation to Peter Sullivan of AIR London Ltd., who signed her immediately to a recording contract under his personal direction.

In the publishing area, one of our copyrights was included on the latest record album by Anne Murray, and two more are scheduled to be included

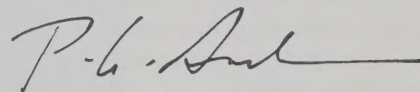
on her next album. Finally, a new "Blood, Sweat & Tears" album will be released shortly including more of David Clayton Thomas' compositions.

Other contemporary writer-performers are being signed on a highly selective basis and being groomed for international competition.

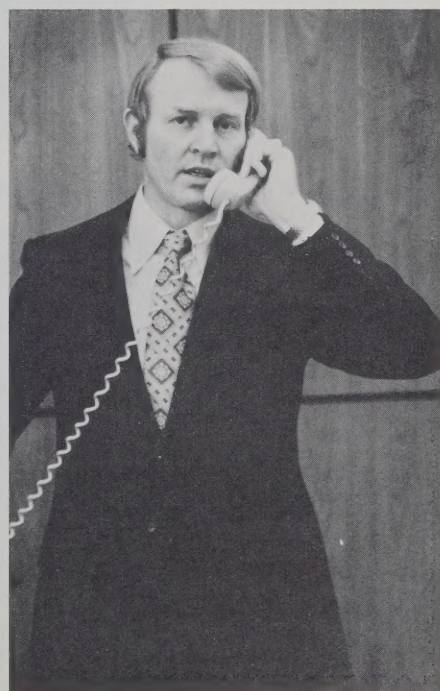
The GBX Electronic Music Division continues to grow. We are confident that our substantial growth expectations for electronic music amplifiers and other equipment will be realized in the next few years.

On behalf of the Board of Directors, I express our strong confidence in the coming years as being our greatest growth period. At the same time, I thank our shareholders and employees for their continued support, confidence and contribution to the success of the company.

On behalf of the Board,



Phil G. Anderson,
President.



MUSIC—TUNED FOR GROWTH

Music, converted to dollar volume, amounts to \$200 billion plus per year in North America alone. The total international market exceeds \$450 billion. This total only includes records, musical instruments, music publishing and artist management gross revenues. One international hit recording group will produce over \$2,000,000 in gross revenue per year.

HIT RECORD ARTIST AND MUSIC PROPERTY DEVELOPMENT

Our record group, OCEAN, were brought to international stardom by our executive producer Bill Gilliland through their recording of "PUT YOUR HAND IN THE HAND". The recording sold over one million records in the first three months after release of the recording in the U.S. This is our first million seller artist under our complete control. New recordings have been made for immediate international release, including compositions under copyright to AHED.



INTERNATIONAL TALENT MANAGEMENT

A new division has been organized for development of business management contracts with performers and writers who are not necessarily under recording contract to AHED. We are confident substantial revenues may be derived from this area.

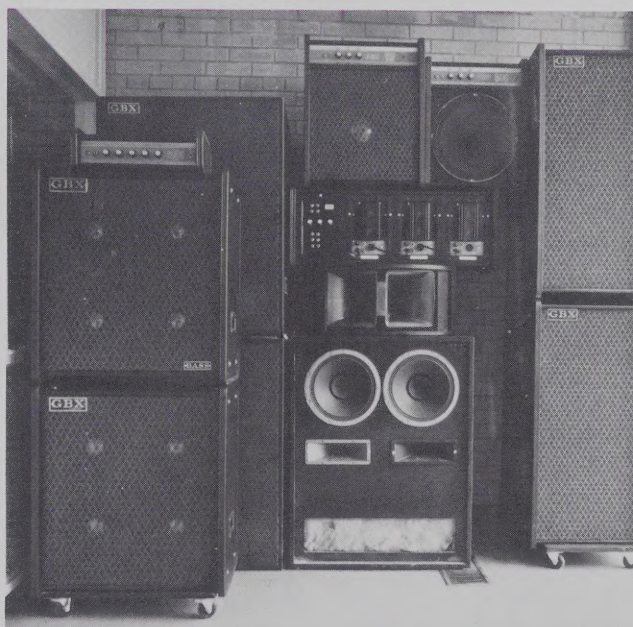
RECORD AND TAPE MANUFACTURE AND DISTRIBUTION

For the last year we have been reorganizing our distribution policies for records and tapes. These changes have now been completed and profit improvement in this division is expected. Custom record manufacture continues to grow, so that we are now expanding our manufacturing facilities and recording studio.



AHED ELECTRONICS—A HIGHLIGHT FOR GROWTH

AHED Electronics has now completed the development of a line of GBX music amplifiers and Public Address speaker cabinets. U.S. retailers have reported that several prominent music groups have purchased GBX amplifiers and PA speaker cabinets. In the 70's, highly efficient music and voice amplification systems will grow rapidly to an estimated 100 million dollars in sales by 1975. Reaction by music retailers in Canada and the United States over the last year indicate our GBX product will capture a good part of the market.



MUSICAL INSTRUMENT MANUFACTURE AND DISTRIBUTION

Sales continue to grow at better than 30 percent per year. An exclusive long-term distribution contract for Canada has been agreed upon for Framus guitars and stringed instruments—the largest manufacturer in West Germany. Most of our own product brands continue to be manufactured at our order outside of Canada.

With musical instrument purchases by consumers predicted to increase at a much higher rate than other leisure-time products, we plan to maximize growth and profit in this area.



AHED MUSIC CORPORATION LIMITED and Subsidiary Companies

CONSOLIDATED BALANCE SHEET AS AT 30 NOVEMBER, 1970

	1970	1969
CURRENT ASSETS		
Cash on hand and in bank.....	\$ 98,179	\$ 8,766
Accounts receivable.....	1,143,692	1,026,204
Inventories, at lower of cost and net realizable value.....	1,032,901	832,860
Prepaid expenses and deposits.....	16,191	21,197
	<u>2,290,963</u>	<u>1,889,027</u>
FIXED ASSETS, at cost		
Machinery and equipment.....	281,666	283,362
Office equipment.....	41,653	38,357
Automotive equipment.....	23,782	18,324
Leasehold improvements.....	16,545	16,754
	<u>363,646</u>	<u>356,797</u>
Less accumulated depreciation.....	<u>247,527</u>	<u>224,376</u>
	<u>116,119</u>	<u>132,421</u>
OTHER ASSETS, at cost		
Deferred development costs.....	25,437	—
Goodwill and trade marks.....	29,468	25,290
Cost of public financing less portion amortized.....	19,067	21,450
Excess of cost of shares in subsidiary companies over equity value at dates of acquisition.....	17,304	—
Incorporation expenses.....	1,725	1,160
	<u>93,001</u>	<u>47,900</u>
	<u>\$2,500,083</u>	<u>\$2,069,348</u>

	1970	1969
CURRENT LIABILITIES		
Bank indebtedness—note 2.....	\$ 312,500	\$ 310,630
Accounts payable and accrued liabilities.....	727,114	447,202
Taxes withheld.....	53,462	9,810
Long term debt due within one year.....	19,994	31,423
Income taxes.....	94,870	74,459
	<u>1,207,940</u>	<u>873,524</u>
LONG TERM DEBT—Note 3.....	52,309	56,240
DEFERRED INCOME TAXES.....	4,477	5,688
	<u>1,264,726</u>	<u>935,452</u>
SHAREHOLDERS' EQUITY		
Capital.....		
Authorized		
1,500,000 Shares without par value		
Issued and fully paid		
800,000 Shares.....	1,043,801	1,043,801
Retained Earnings.....	191,556	90,095
	<u>1,235,357</u>	<u>1,133,896</u>
	<u>\$2,500,083</u>	<u>\$2,069,348</u>

AHED MUSIC CORPORATION LIMITED and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED 30 NOVEMBER, 1970

	1970	1969
SALES	\$3,917,297	\$3,658,168
COST OF SALES	2,416,617	1,999,017
	<u>1,500,680</u>	<u>1,659,151</u>
EXPENSES		
Selling, general and administrative	1,270,481	1,469,181
Depreciation and amortization	35,316	36,060
	<u>1,305,797</u>	<u>1,505,241</u>
INCOME BEFORE TAXES	194,883	153,910
INCOME TAXES	93,422	63,815
NET INCOME FOR THE YEAR	101,461	90,095
RETAINED EARNINGS, BEGINNING OF THE YEAR	90,095	—
RETAINED EARNINGS, END OF THE YEAR	<u>\$ 191,556</u>	<u>\$ 90,095</u>

Approved on behalf of the Board:

P. G. Anderson, Director

W. R. Gilliland, Director

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
AHED MUSIC CORPORATION LIMITED

We have examined the consolidated balance sheet of AHED Music Corporation Limited and subsidiary companies as at 30 November 1970 and the consolidated statements of operations and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at 30 November 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
16 February, 1971

DUNWOODY & COMPANY
CHARTERED ACCOUNTANTS

AHED MUSIC CORPORATION LIMITED and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 30 NOVEMBER, 1970

	<u>1970</u>	<u>1969</u>
SOURCE OF FUNDS		
Net income for the year	\$ 101,461	\$ 90,095
Expenses not requiring an outlay of funds:		
Depreciation of fixed assets	32,933	36,060
Amortization of engineering and prototype costs.....	—	6,931
Amortization of cost of public financing.....	2,383	2,383
FUNDS PROVIDED FROM OPERATIONS.....	<u>136,777</u>	<u>135,469</u>
Shares issued for cash	—	504,625
Shares issued for working capital of subsidiaries.....	—	474,070
	<u>136,777</u>	<u>1,114,164</u>
APPLICATION OF FUNDS		
Purchase of fixed assets, net	16,631	28,545
Cost of public financing	—	23,833
Increase in current portion of long term debt	—	13,423
Payment of long term debt, net	3,931	18,501
Reduction of deferred income taxes	1,211	2,134
Redemption of preference shares	—	10,680
Deferred development costs	25,437	—
Goodwill arising on acquisition of subsidiary companies.....	21,482	—
Other	565	1,545
	<u>69,257</u>	<u>98,661</u>
INCREASE IN WORKING CAPITAL	<u>\$ 67,520</u>	<u>\$1,015,503</u>
Current assets.....	\$2,290,963	\$1,889,027
Current liabilities.....	<u>1,207,940</u>	<u>873,524</u>
WORKING CAPITAL	<u>\$1,083,023</u>	<u>\$1,015,503</u>

AHED MUSIC CORPORATION LIMITED and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 NOVEMBER, 1970

Note 1 — COMPANIES INCLUDED

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries: Arc Sound Limited, Precision Record Productions Limited, Bay Music Co. Limited, Canint Music Corporation Limited, AHED National Franchises Limited, Jim Blackley's Drum Village Limited, and Arc Records Limited.

Note 2 — Book debts and manufacturing inventories of the AHED companies are pledged as security for bank indebtedness together with floating charge debentures to the aggregate amount of \$850,000.

Note 3 — LONG TERM DEBT

	<u>1970</u>	<u>1969</u>
Chattel mortgage.....	\$10,601	\$23,772
Directors' and shareholders' loans.....	55,252	57,441
Other.....	6,450	6,450
	<u>72,303</u>	<u>87,663</u>
Less current portion.....	<u>19,994</u>	<u>31,423</u>
	<u>\$52,309</u>	<u>\$56,240</u>

The chattel mortgage is on machinery and equipment owned by Precision Record Productions Limited.

Note 4 — STATUTORY INFORMATION

Amortization of intangible assets for the year amounted to \$2,383. Interest on long term debt for the year amounted to \$5,749. The aggregate direct remuneration paid by the companies to the directors and senior officers (as defined by The Corporations Act) for the year amounted to \$117,823.

Note 5 — Amounts in foreign currencies were converted into Canadian currency at the rates of exchange in effect at the end of the financial year.

DIVISION HEADS



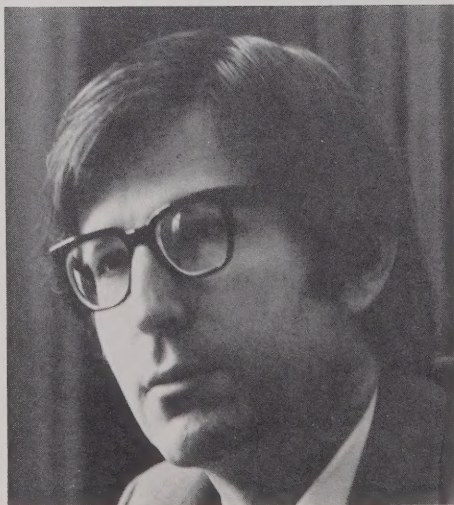
PHIL G. ANDERSON — PRESIDENT, responsible for overall Corporate growth of the AHED group.



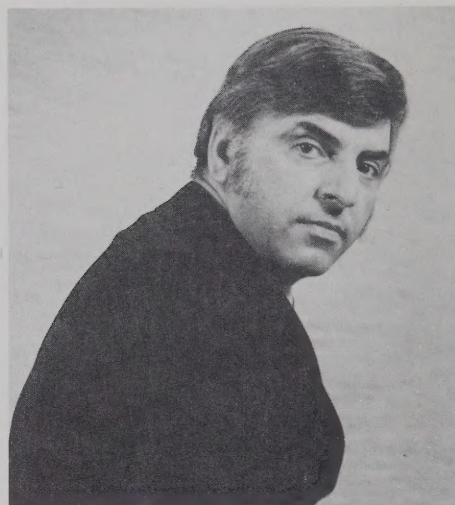
GORDON REID — General Manager of the Musical Instrument Manufacturing and Distribution Division.



W. R. (BILL) GILLILAND — VICE-PRESIDENT, in charge of talent and music property development.



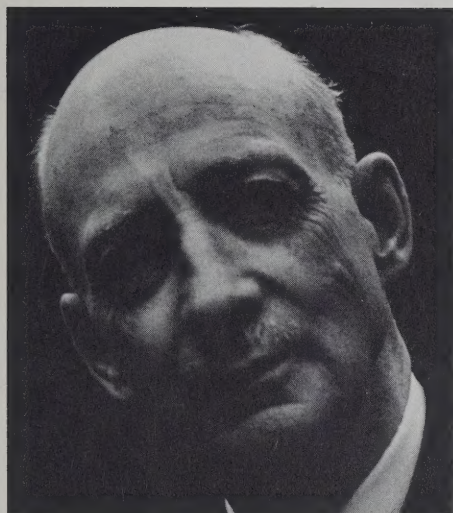
BILL CARRIGAN — General Manager of the GBX Electronics Division



HARRY DERDERIAN, BA — COMPANY SECRETARY, in charge of Corporate development.



BARRY AUTHORS — General Manager — International Talent Management.



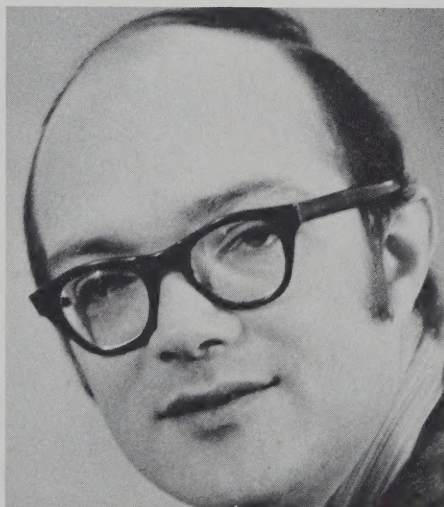
U. A. (TOM) SHILSTRA — Vice-President in charge of Purchasing and Supply for the Musical Instrument Department.



KEN McKEOWN, CA — COMPTROLLER, in charge of Accounting and Administration.



JACK C. ANDERSON — VICE-PRESIDENT, in charge of Record Manufacturing.



GARNET ARMSTRONG — General Manager — Record and Tape Division.

DIRECTORS AND OFFICERS

*PHIL G. ANDERSON — Willowdale
President and Treasurer, AHED and subsidiaries

LEON ELLIOTT WEINSTEIN — Toronto
Consultant on Communications and Corporate Affairs

KARL E. HAGSTROM — Alvdalen, Sweden
Managing Director, A. B. Albin Hagstrom

WALTER M. BOWEN — Toronto
Partner of legal firm — Blaney, Pasternak, Smela, Eagleson & Watson

*W. R. (BILL) GILLILAND — Willowdale
Vice-President

*HARRY A. DERDERIAN — Guelph
Vice-President and Secretary

*JACK C. ANDERSON — Scarborough
Vice-President

*U. A. (TOM) SHILSTRA — Toronto
Director

†KEN McKEOWN, C.A. — Toronto
Comptroller

*Officers. †Officer Only.

BANKERS

Royal Bank of Canada — Toronto, Ontario.

TRANSFER AGENT

Canada Permanent Trust — Toronto, Ontario.

CORPORATE COUNSEL

Blaney, Pasternak, Smela, Eagleson and Watson — Toronto, Ontario.

AUDITORS

Dunwoody & Co. — Toronto, Ontario.

DIVISIONS

MASTER RECORD PRODUCTIONS
MUSIC PUBLISHING
RECORD AND TAPE DISTRIBUTION
RECORD MANUFACTURING
INTERNATIONAL ARTIST
MANAGEMENT
MUSICAL INSTRUMENT
MANUFACTURING AND
DISTRIBUTION
MUSIC ELECTRONICS
MANUFACTURING

